

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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**Investigation by the Department of  
Telecommunications and Energy on  
its own motion into the Provision of Default Service**

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) **D.T.E. 02-40-B**  
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**INITIAL COMMENTS OF STRATEGIC ENERGY, LLC**

**Introduction**

Strategic Energy (“Strategic”) commends the Department of Telecommunications and Energy (“Department”) for taking action to address outstanding issues related to the design of Default Service (“DS”) that may result in barriers to the successful implementation of electric restructuring in Massachusetts. The structure of DS is a key element in creating a regulatory framework that is consistent with the development of a robust competitive market. Eliminating, or minimizing, barriers related to DS design will facilitate the development of liquid competitive retail markets that will result in cost benefits for Commonwealth consumers.

**Procedural Background**

On June 21, 2002 the Department issued an order opening an investigation to ensure that the manner in which DS is provided is consistent with competitive markets. The proceeding was docketed as DTE 02-40. On February 13, 2003 the Department issued Order 02-40-A. This order

addressed the manner in which Locational Marginal Pricing is to be reflected at the retail level. On April 24, 2003, the Department issued Order 02-40-B, which addressed the remaining outstanding issues related to the provision of DS.

Pursuant to the order, the Department conducted a Technical Session on May 15, 2003 to examine the feasibility of implementing monthly DS procurement and pricing for medium and large commercial and industrial customers (“C&I”).<sup>1</sup> At the close of the Technical Session the Department solicited comments from interested parties. Strategic hereby submits its initial comments.

### **Strategic Energy Position**

Strategic believes that DS should be a “last resort” service for C&I customers that are not receiving competitive supply. The sole purpose of DS should be to ensure that customers have access to reliable service in the event the competitive market, for whatever reason, is not supplying them.<sup>2</sup> The DS product should not be a price-regulated alternative to competitive products that provides price protection, or mitigation, mechanisms. In short, long-term procurement and pricing structures

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<sup>1</sup> Strategic presumes that medium and large C&I customers includes G-2 and G-3 customer classes. Strategic notes that at the technical conference it was suggested that the monthly pricing structure should only apply to C&I customers that have advanced metering technology due to the fact that load profile customers are not attractive to the competitive market and do not have adequate competitive market offerings. *See Transcript at p. 145, 4-7, p.154, 4-155, 4-7, p.187, 1-188, 7.* Strategic can, and does, market to interval meter and load-profile customers. Constellation New Energy also stated that they can, and do, provide competitive offerings to customers regardless of whether they are interval meter or load-profile customers. *See Tr. at 168, 10-17.* Therefore, Strategic suggests that there is little merit to this contention and recommends that the proposed monthly procurement and pricing structure should apply to *all* customers in these classes irrespective of whether they are interval meter or load-profile customers.

<sup>2</sup> This position is consistent with the Department’s position. *See Transcript at 118, 4-11.*

intended to achieve price stability, should not be a goal of DS.<sup>3</sup> Value added products that mitigate market risks, should, and will, be provided by the competitive market.<sup>4</sup>

DS procurement and pricing should contemporaneously reflect actual wholesale spot market prices to the maximum extent possible. Such a procurement and pricing structure will provide efficient price signals to consumers thereby providing the incentive to extract maximum value from the competitive market. This will enable consumers to manage their electricity costs in the most efficient manner and foster more robust competition in the state.<sup>5</sup> Ideally, DS for C&I customers should reflect hourly wholesale spot market prices. However, given that the Department has determined that this is not a viable option at this time,<sup>6</sup> Strategic believes that implementing monthly DS procurement and pricing for C&I customers will be a significant step towards achieving the goal of crafting a DS structure that is consistent with the development of robust competitive markets, which, in turn, will provide significant cost benefits for Massachusetts' consumers. Therefore, Strategic urges the Department to act expeditiously to implement a monthly DS procurement and pricing structure for the C&I customer classes.

Strategic appreciates the opportunity to submit initial comments and looks forward to participating in the proceeding going forward.

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<sup>3</sup> Strategic recognizes that significant market opportunities do not presently exist for residential and small C&I customers, and that DS for these customer classes should reflect a pricing structure that mitigates the risks associated with contemporaneous wholesale spot market pass-through pricing. However, Strategic notes that the DS structure for these customer classes should be revisited periodically and should be modified consistent with a contemporaneous wholesale spot market pass-through design if and when adequate competitive retail market opportunities develop for these customer groups.

<sup>4</sup> This position is consistent with the Department's position. *See Transcript at 118, 4-11.*

<sup>5</sup> Strategic notes that the energy management efficiencies that will result from monthly DS pricing will also result in system reliability benefits.

<sup>6</sup> DTE 02-40-B at 37-38.

